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BEFORE THE ARIZONA CORPORATION COMMISSION

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2007 SEP 17 P 4:42

AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
SANTA CRUZ WATER COMPANY AND PALO
VERDE UTILITIES COMPANY TO AMEND
DECISION NO. 68498 PURSUANT TO A.R.S.
SECTION 40-252.

Docket No. SW-03575A-07-0305

Docket No. W-03576A-07-0305

COMMENTS TO STAFF REPORT

Santa Cruz Water Company and Palo Verde Utilities Company (collectively, "Global Utilities") respectfully file these comments to the Staff Report.

I. Preliminary Statement.

The issue in this case is whether to re-instate the order preliminary covering the areas currently served by the 387 Districts. The Global Utilities currently serve as the manager and operator of the 387 Districts, but the Global Utilities propose to bring this area under the Commission's authority by adding it to their existing CC&Ns. The public interest strongly favors such a re-instatement because it will bring Commission oversight to the services provided to the thousands of customers in this area. Staff recommends denial because the Global Utilities are technically out of compliance in another docket, due to some matters that are the subject of a pending motion for extension of time. However, separately, Staff has recommended that this motion for extension of time be granted, which would cure the compliance issue raised by Staff. Staff also raised a technical issue about the adequacy of Santa Cruz's production capacity. Staff's concern is misplaced because it seeks to extend potable water standards to non-potable irrigation services.

Arizona Corporation Commission

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1 **II. Overview.**

2 On February 23, 2006, the Commission issued Decision No. 68498 (the "Order
3 Preliminary") which granted the Global Utilities an order preliminary for the areas served by the
4 387 Domestic Water Improvement District and the 387 Wastewater Improvement District
5 (collectively, the "387 Districts"). The Global Utilities currently serve as the managers and
6 operators of the 387 Districts. They took over that role in response to a crisis involving the 387
7 Districts.

8 Many parts of northern Pinal County faced extraordinary growth over the last few years.
9 Unfortunately, the 387 Districts were not able to cope with this growth. The 387 District's
10 difficulties created a crisis situation.¹ At the request of state and local officials, the Global
11 Utilities resolved this crisis by interconnecting their systems to the systems of the 387 Districts.

12 The Commission found that "the Companies have been placed in a unique situation
13 because they were asked to intercede in an emergency situation to continue water and wastewater
14 services to customers in the extension area...."² The Commission also stated that as "a result of
15 the emergency situation, Palo Verde and Santa Cruz interconnected their systems with the 387
16 Districts in order to continue water and wastewater service to the customers in the proposed
17 extension area."³ Although these interconnections were made with the knowledge and approval of
18 the Arizona Department of Environmental Quality ("ADEQ") and in accordance with good
19 engineering and operations practice, due to the emergency nature of the work, approval permits
20 were not obtained. Therefore, the Commission ordered the Global Utilities to file ADEQ
21 Approvals of Construction ("AOC") for the water and wastewater interconnections.

22 On January 2, 2007, the Global Utilities filed a motion for extension of time concerning the
23 AOCs. Staff then verbally advised the Global Utilities that Staff believes that motion for
24 extensions of time are not permitted for Orders Preliminary. Staff recommended that the Global
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26 ¹ See Order Preliminary at Finding of Fact No. 37.

27 ² Order Preliminary at Finding of Fact No. 42.

³ Order Preliminary at Finding of Fact No. 37.

1 Utilities file an application under A.R.S. § 40-252 to modify the deadlines in the Order
2 Preliminary. The Global Utilities agreed to do so. Accordingly, the Global Utilities filed this
3 case, asking that the AOC deadlines be eliminated, which would serve to reinstate the Order
4 Preliminary.

5 ADEQ has advised the Global Utilities that no AOC was needed for the water
6 interconnection. Thereafter, ADEQ issued the AOC for the wastewater interconnection. Because
7 no AOC is needed for the water interconnection, and because the AOC for the wastewater
8 interconnection has already been issued, the Global Utilities request that the Order Preliminary be
9 amended to eliminate the AOC requirements. Again, the interconnections were made with the full
10 knowledge and approval of ADEQ. ADEQ's delay in issuing the AOC should not deprive
11 customers in this area of the Commission's protection and oversight.

12 The Commission found that "issuance of an Order Preliminary brings the extension areas
13 under Commission jurisdiction which will allow for continued oversight by the Commission that
14 all requirements are met prior to the issuance of a final Order."⁴ Amending the Order Preliminary
15 to eliminate the AOC requirements will allow the Commission to preserve these benefits.

16 **III. The public interest strongly supports re-instating the Order Preliminary.**

17 Although the Global Utilities can continue to operate as the managers of the 387 Districts
18 indefinitely, they strongly prefer to include these areas in their CC&Ns, so that these areas fall
19 under the jurisdiction and protection of the Commission. The Global Utilities are ultimately
20 owned by Global Water Resources, LLC ("Global Parent"). Global Parent's business model is to
21 own regulated utilities, rather than to operate unregulated utility businesses. The Global Utilities
22 believe that the customers in the 387 District areas deserve the same protections and rights that
23 their other customers have. Accordingly, the Commission should act to re-assert its jurisdiction
24 over these areas by re-instating the Order Preliminary.

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27 ⁴ Order Preliminary at page 11.

1 **IV. Compliance Issue.**

2 Staff did not address the broader public interest issues discussed both above and in the
3 Order Preliminary. Instead, their recommendation for denial is based on a compliance issue. The
4 compliance issue involves Decision No. 68448, which required, among other things, that the
5 Global Utilities obtain: (1) main extension agreements for Phase I; (2) a Designation of Assured
6 Water Supply ("DAWS"); and (3) a Pinal County Franchise. For various reasons, most notably
7 the overall decline in the rate of development of raw land, those items have been delayed. The
8 Global Utilities filed a motion for extension of time regarding those items on February 2, 2007.
9 On August 28, 2007, Staff filed a Staff Report recommending that the motion for extension of
10 time be granted. There has been no opposition to the extension of time, and if it is granted, the
11 Global Utilities will be in full compliance. The Staff Report in this case acknowledges that Staff's
12 recommendation should be re-evaluated if the motion for extension of time is granted. Thus, this
13 issue may be moot by the time of the hearing. But if it is not, requiring the Global Utilities to keep
14 an unregulated revenue stream seems like an ill-fitting penalty. Moreover, this penalty would fall
15 heaviest on the 387 District's customers, who would remain outside the Commission's protection.

16 **V. Capacity Issue.**

17 The engineering memo attached to the Staff Report asserts that Santa Cruz lacks adequate
18 capacity. The Global Utilities respectfully disagree. In any event, Staff concludes that this
19 problem will be resolved by two projects that are under-way and will soon be completed.
20 Accordingly, this factor did not affect Staff's analysis.

21 The two projects mentioned by Staff are: (1) a 3.5 million gallon storage tank at Rancho
22 Mirage; and (2) a 2,800 gallons per minute well at Rancho Mirage. In both cases, the construction
23 has been completed and Santa Cruz is awaiting final AOC documentation from ADEQ.

24 However, even if these projects did not exist, Santa Cruz believes that it has adequate
25 capacity. Staff's analysis is based on the total "sold" volumes of the system – both potable and
26 non-potable. Staff then applies a potable water capacity standard to conclude that the system lacks
27 capacity. The Global Utilities disagree with this approach for several reasons:

1. "Pumped" volumes more accurately reflect the demand of the system. Employing "sold" volumes as a determination of capacity ignores the differences in billing cycles, account establishment and fluctuations in accounting for overages and underages which can skew the data.
2. Staff's analysis does not differentiate between true potable demand, and other demands (construction, irrigation, etc). Delivery of raw water to customer-owned storage impoundments allows greater flexibility in delivery, so that the non-potable water system does not have to be able immediately meet peak demand, as is the case with the potable water system.

Santa Cruz's potable water system has more than enough capacity to meet potable demand. The Global Utilities make a point of ensuring that they stay well ahead of growth thorough rigorous planning. A summary of Santa Cruz's potable water capacity and demand is attached as Exhibit 1. As can be seen, during the peak month, Santa Cruz had 14,225 customers, who used an average of 386 gallons per day. Thus, the peak month demand is 5,490,850 gallons. Santa Cruz's current well capacity is 7,400 gallons per minute (gpm), which can produce more than 10.6 million gallons per day. ADEQ calculates "firm capacity" by eliminating the largest water source, to ensure the system can withstand an unanticipated failure. Santa Cruz's largest well is 2,300 gpm, leaving 5,100 gpm of firm production, which can produce more than 7.3 million gallons per day. This is substantially more than the peak month demand of 5.4 million gallons. Moreover, Santa Cruz also has 4 million gallons of storage. Thus, total daily capacity (storage + firm production) is 11.3 million gallons, against a demand of only 5.4 million gallons.

VI. Conclusion.

For these reasons, the Global Utilities respectfully request that the Order Preliminary be re-instated as described above.

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1 RESPECTFULLY SUBMITTED this 17th day of September 2007.

2 ROSHKA DEWULF & PATTEN, PLC

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Santa Cruz Water Company
Potable Water Use Data

MONTH/YEAR 2006- 2007	NUMBER OF CUSTOMERS	POTABLE GALLONS SOLD (Thousands)	POTABLE GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JULY	11593	110,803	139,540	
AUGUST	11793	146,114	134,320	
SEPTEMBER	11971	145,650	128,431	
OCTOBER	12424	112,114	130,385	
NOVEMBER	12577	110,728	119,290	
DECEMBER	12744	108,681	106,458	
JANUARY	12838	85,256	94,053	
FEBRUARY	12959	94,468	89,493	
MARCH	13246	73,753	116,932	
APRIL	13638	115,541	124,526	
MAY	13830	115,002	147,187	
JUNE	14225	157,957	183,250	
JULY	14480	181,775	181,337	
TOTALS →		1,557,842	1,695,202	0
		Average Daily Demand	4280.813507	

Water Use Peak Month (June):	183,250
Number of Connections Peak Month	14225
Number of Days Peak Month	30
Average Daily Water Use Peak Month (gal/day-serv)	386
Existing storage (MG)	4
Largest producing well source (gpm)	2300
Total Well source production (Potable)	7400